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TAGS: KTFN EFIN ECON RS
SUBJECT: RUSSIAN SUSPECT BEHIND CENTRAL BANKER'S MURDER
ARRESTED

REF: (06) MOSCOW 10603

Classified By: ECON M/C Quanrud, Reasons 1.4 (b/d).

Summary

¶11. (SBU) Russia's Prosecutor General Yury Chaika announced on January 11 the arrest of a Russian citizen believed to be the mastermind behind Central Bank First Deputy Chairman Andrey Kozlov's murder in September 2006. Chaika's statement did not mention Aleksey Frenkel by name, but Frenkel's attorney contacted a number of news outlets to report that his client and another person had been arrested in connection with the charge. Frenkel, 35, had been the CEO of Sodbiznesbank, whose license revocation on suspicion of money laundering in May 2004 sparked a short-lived controversy over the Central Bank's authority. Frenkel had also been the CEO of VIP-Bank, whose license was revoked in June 2006. Initial reaction to the arrest has been low-key and mixed, ranging from disbelief that Frenkel could have orchestrated the murder to optimism that the arrest of a Russian citizen indicates a genuine commitment to clean up corruption. End Summary.

Eight Now Arrested in Kozlov Case

¶12. (SBU) In December 2006, Chaika announced without elaboration that the murder of Central Bank of Russia (CBR) First Deputy Chairman Andrey Kozlov had been solved. Media reports and comments by financial sector observers dismissed the claim since only Ukrainian suspects had been known to be detained for the killing. Critics relegated these arrests, along with the apparent bust-up of a Georgian money-laundering ring in October 2006, to the category of convenient ethnic scapegoats. On January 11, however, Chaika reported, without revealing any names, that the mastermind behind Kozlov's September 2006 murder had been arrested. The suspect's attorney, however, began contacting media outlets such as The Moscow Times and business daily Vedomosti to explain that his client, Aleksey Frenkel, and another unnamed individual had been arrested in connection with the Kozlov case.

Frenkel's Banking Background

¶13. (SBU) Frenkel served as CEO of both Sodbiznesbank and VIP-Bank. Sodbiznesbank lost its banking license in May 2004 when the bank failed to address CBR concerns about money

laundering issues, which were the primary target of Kozlov's reform efforts. The license revocation came at a time when the CBR was evaluating banks for participation in the deposit insurance program. Sodbiznesbank's violations and refusal to take corrective action ultimately put the bank out of business with some depositors not receiving the full value of their accounts upon liquidation. VIP-Bank, which SmartMoney magazine once considered part of "Frenkel's empire," lost its license in June 2006. Evroprominvest, which later took on many of VIP-Bank's clients and operations, lost its license in November 2006 "for laundering proceeds in excess of RUB 38 billion (USD 1.4 billion)."

Mixed Reaction on the Arrest

¶4. (SBU) Many financial sector players and observers were pessimistic that law enforcement officials would find and successfully prosecute those responsible for Kozlov's assassination (reftel). On the news of Frenkel's arrest, Duma Deputy Pavel Medvedev expressed doubt that Frenkel, a former student of Medvedev's, was capable of orchestrating the murder. Association of Regional Banks President, and Duma Deputy, Anatoly Aksakov echoed Chaika's statement that more suspects may be arrested in connection with this case. Aksakov suggested that investigators would probably take a closer look at Frenkel's associates and the heads of other banks.

¶5. (C) The Frenkel arrest seems to indicate that finding those responsible for Kozlov's murder was a priority for the Prosecutor General's office. United Financial Group Chief Economist Yaroslav Lisssovlik shared his views on the significance of this development: "This is the first time that authorities went after not just the ones who committed

the crime, but the ones who ordered it and paid for it. Importantly, it is also the first time that a Russian, not a Ukrainian or a Georgian, was found responsible. It sends a forceful signal that such horrible crimes will not be tolerated. This also might be a sign that Putin's anti-corruption campaign and pledge to clean up the banking sector is not just words."

Comment

¶6. (C) Kozlov's assassination stands as the only murder of a senior federal government official in the post-Soviet era. Arresting the head of banks that were closed as a result of Kozlov's efforts seems an obvious step for law enforcement officials. Since the number of suspects has reached an apparent critical mass, and because the name of the suspected mastermind is now in the public domain, the focus will soon shift to the quality of the evidence Chaika and his team have gathered in the four months since Kozlov's death.

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